
Debate

Global Warfare, Economic Loss and the Outbreak of the Great War

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In a recent article, Patrick O'Brien¹ has claimed that the consequences of war for economic growth cannot be properly assessed, and that mainstream economists may basically overestimate the negative effect of war on economic development, due to some ideological bias. He claims that a 'large part of the economic literature on the impact of wars describes and attempts to measure their "costs". Unfortunately, the benefits (except the supposed benefit of not losing) are generally ignored, perhaps because in a liberal era scholars are reluctant to admit that participation in war can actually pay.'² Indeed, it has become fashionable in peace economics as well as in international political economy to point not only to the potential costs of war for growth but even more to its ever-growing direct and opportunity costs in a world of increasing international trade and financial interdependence. It is assumed in most analyses that major war is obsolete in modern times, at least among industrialized, interdependent nations. The idea of actual benefits from warfare is implicitly ruled out from the beginning. Of course this normative point of view can be well understood given the experience of the two world wars. Nevertheless, it ignores even the theoretical possibility of benefits from war and thus does not try to identify the actual *net* costs of warfare. Moreover, its global *ex post* perspective clearly underestimates the importance of national *ex ante* considerations on the part of decisionmakers going to war.

The purpose of this paper is to support O'Brien's argument by making two points. First, I will try to show that mainstream economics actually covers only parts of the theoretical cost-benefit problem of war, since it concentrates on the cost-side of warfare and ignores *ex ante*

¹ P.K. O'Brien, 'Global Warfare and Long-Term Economic Development', *War in History* III (1996), pp. 437–50.

² *Op. cit.*, p. 439.

arguments which imply that war might in theory pay. Looking beyond liberal economics reveals that there may be some well-established theoretical arguments claiming positive economic effects of (successful) warfare. They may even be empirically tenable to a certain degree. One can therefore claim that the decision to go to war in 1914 might well be quite rational according to economic considerations, despite our *ex post* knowledge about its actual costs. Second, I look at the argument that, even if one accepts the argument of theoretical benefits from war for the time before 1914, modern international interdependence has increased the potential costs of war to the point where they outweigh any imaginable benefits, making war obsolete between industrialized open economies, at least today. Contrary to this commonplace view, I will claim that commercial, financial, technological and economic interdependence will not necessarily prevent war, since the theoretical framework of economic arguments promoting war is still valid for political decisionmakers on the brink of international conflict. In this, the paper adds to recently proposed qualifications of the notion of 'liberal peace' that modern war can never pay.³

The best way to demonstrate both points is to refer to the discussion about the 'liberal peace' before the Great War. This is for three reasons. First, the central arguments for peace promoted by modern political economy were already present in pre-1914 theory. Second, since liberal economics was then but one school of thought among others, the contemporary discussion among economists, diplomats, politicians and officers gives us a straightforward approach to the theoretical reasons for claiming positive economic effects from war. They may then be supported by the historical experience of the First World War itself. Third, as I will show, the degree of international economic interdependence before 1914 was comparable to today's. The outbreak of the Great War can therefore be taken as the best argument against the 'liberal peace' simply because it happened.

I. The 'Liberal Peace' before 1914

The most prominent contemporary theorist claiming that economic interdependence and internationalization should result in peace is Norman Angell.⁴ His illustration of increasing interdependence

³ K. Barbieri, 'Economic Interdependence: A Path to Peace or a Source of Interstate Conflict?', *Journal of Peace Research* XXXIII (1996), pp. 29–49; P. Liberman, *Does Conquest Pay? The Exploitation of Occupied Industrial Societies* (Princeton, NJ, 1996); J. R. Oneal *et al.*, 'The Liberal Peace: Interdependence, Democracy, and International Conflict, 1950–85', *Journal of Peace Research* XXXIII (1996), pp. 11–28.

⁴ N. Angell, *The Great Illusion: A Study of the Relation of Military Power to National Advantage* (3rd edn, London, 1912); *The Foundations of International Polity* (London, 1914).

among modern countries perfectly covers the central idea of the classical economic rationale of peace in the tradition of John Stuart Mill:⁵

The important thing . . . is that by division of labour you have created a condition of dependence upon others, and that dependence upon others necessarily implies a limitation of the force you can use against the others. Even in slavery, if the master is dependent on the labour of the slaves, the force he can use against them is limited – he cannot kill them. As the division of labour increases in complexity, a progressive stultification of force takes place . . . The fact that complete interdependence means the complete stultification of force is illustrated by the position of two men in a boat . . . The boat was leaky, the sea heavy, and the shore a long way off. It took all the efforts of the one man to row, and of the other to bale. If either had ceased both would have drowned. At one point the rower threatened the baler that if he did not bale with more energy he would throw him overboard; to which the baler made the obvious reply that, if he did, he (the rower) would drown also. And as the rower was really dependent upon the baler and the baler upon the rower, neither could use force against the other. The threat of death itself became ineffective in such circumstances. To the degree, to which interdependence is complete, force becomes ineffective.⁶

Angell argued that, due to interdependence, modern war could no longer result in economic gain. Neither acquisition of new territories nor reparations paid by the vanquished side increase the victor's wealth. Those living in the newly annexed provinces even receive an important comparative advantage over the original population: they now profit from being in the same national customs area as their competitors without being hampered any more by tariffs or quotas. Moreover, country-specific know-how concerning the new territories is lost by a change in sovereignty, making administration very inefficient. Destruction of the opponent's property during the fighting further decreases the value of the conquest and may eliminate an important customer of the victor. Moreover, by paying reparations the losing side may even improve its position in international trade: hinting at the case of France and Germany after 1871, Angell advanced claims that the massive inflows of French gold into the German economy increased the German price level and consequently led to improved export opportunities for cheaper French products.

Since a war between great powers would also result in a general breakdown of international capital markets and thus backfire on every

⁵ J.S. Mill, *Principles of Political Economy* (London, 1909). An overview of contemporary theory and its foundations is provided by E. Silberman, *The Problem of War in Nineteenth Century Economic Thought* (New York, 1946).

⁶ Angell, *Foundations*, pp. 16–17.

state in the international system, be it winner or loser,⁷ war, according to the liberal view, always implied a threat of national bankruptcy. The threat is intensified by the loosening monetary and fiscal discipline of governments trying to finance military expenditure through inflation, taxes or public debt.⁸ This would inevitably lead to higher inflation, interest rates and taxes, while at the same time civil investment and social programmes would be crowded out, thus increasing the risk of social unrest.⁹ What is striking about this line of pre-1914 argument is the connection to the topical issue of international economic competition. Since armaments were assumed to be far less productive than civil investments,¹⁰ preparation for war was reckoned to hamper economic growth. At the same time, according to Rolin-Jaequemyns¹¹ among others, the financial burden of armaments made the European states lose in global competition with the United States and Japan, whose entrepreneurs were less hampered by high taxes. Auebury¹² estimated that the US gains from its resulting higher competitiveness accounted for up to 10 per cent of US GNP. The additional tax burden caused solely by the arms race equated to one extra working hour per day and per capita of the employed labour force in Europe. In these circumstances, Europe had to fall back and ultimately lose its position in the world economy and in international affairs.

Finally, there were the direct costs of war caused by the development of military technology. The economic outcome of war had also to be negative for all sides because modern weaponry, at that time recoilless artillery, machine guns and barbed wire, simply resulted in mass slaughter, making traditional battlefield tactics pointless and casualties unbearably high.¹³ By comparing mortality risks from accidents in the UK in 1899–1900 with the relative frequency of casualties in the Boer War, Kitchin¹⁴ tried to quantify the economic costs of war by human loss. He calculated that the probability of being killed or wounded exceeded 10 per cent in the ranks in South Africa, while the equivalent total accident rate for labourers was under 2 per cent. Since most of the soldiers were actually reservists, as would be the case in a European

⁷ A.H. Fried, 'Die Weltfriedenspolitik und ihre wirtschaftliche Grundlage', *Revue Franco-Allemande* III (1900), pp. 289–96; J. Mez, 'Die Abteilung für Volkswirtschaft und Geschichte der Carnegie-Friedensstiftung', *Volkswirtschaftliche Blätter* X (1911), pp. 294–7.

⁸ J.L. Laughlin, 'War and Money: Some Lessons of 1862', *Atlantic Monthly* LXXXII (1898), pp. 47–54.

⁹ L. Auebury, 'Was ist besser, Friede oder Krieg?', *Revue für Internationalismus* I (Apr. 1907), pp. 101–17.

¹⁰ Angell, *Great Illusion*, pp. 26ff.

¹¹ G. Rolin-Jaequemyns, 'Limitations conventionnelles des dépenses et des effectifs militaires', *Revue de Droit International et de Législation Comparée* XIX (1887), pp. 398–407.

¹² Auebury, 'Was ist besser?'

¹³ J. de Bloch, 'The Wars of the Future', *Contemporary Review* LXXX (1901), pp. 305–32.

¹⁴ F.H. Kitchin, 'The Casualties of War and of Industry', *Nineteenth Century* XLVIII (1900), pp. 815–19.

war, the loss in human capital in a war would thus be clearly higher for each side than in peacetime, making war bad business.

II. Benefits from War

Pre-1914 liberal theorists thus concluded that the costs of war were enormous. Therefore, just like modern peace economists, they claimed that war was obsolete from an economic point of view. Nevertheless, there can also be found more sceptical contemporary contributions on the relationship between economic cost-benefit analysis and peace. They produced some fundamental criticisms of traditional economic theory. This is why they are extremely valuable in the context of current international political economy which, through the growing influence of liberal neoclassical theory, tends to follow the same lines as its predecessors before 1914.¹⁵

First, despite the arguments of peace economists like Angell, there was a theoretical possibility of gaining from war if national utility was defined in a broader way than in terms of short-term material wealth. Friedrich List¹⁶ was the first to formulate this counter to liberal theory, building on the perspective of the individual rather than on the collective welfare of the countries involved. Thomasson, for instance, built on List's argument when he claimed: 'From the point of view of the world at large war cannot be productive. It is essentially destructive. From the national standpoint, however, a war of conquest carried to a successful issue may appear to be productive – i.e., to pay for itself, as it is called, either in land, other wealth, or glory.'¹⁷ The decisive factor of the importance of economic interdependence in actual decisionmaking about war and peace thus depends on the *national* utility of warfare or victory in war, as Neurath claimed.¹⁸

Positive utility from war, even in material terms, can be well explained in a perfectly rational manner. It is accepted that there are negative economic consequences in military mobilization because of the decrease in the available labour force as a result of the number of reservists called up, the occupation of infrastructure by the military (railroads), the interruption of international trade, and rising prices for important goods (horses, grain). But those effects could be offset by the increased debt-financed demand of the state, which could substitute for the fall in private demand. Overall consumption could even increase in wartime, since soldiers in the field need more than equivalent civilians in peacetime, while the danger of unemployment due to a partial breakdown in civil production would be offset by the mobiliza-

¹⁵ R. Rotte, 'Economics and Peace-Theory on the Eve of World War One', in J. Brauer and W.G. Gissy, eds, *Economics of Conflict and Peace* (Aldershot, 1997), pp. 7–30.

¹⁶ F. List, *Das nationale System der politischen Oekonomie* (6th edn, Jena, 1950).

¹⁷ F. Thomasson, 'On War and Trade', *Westminster Review* CLV (1901), p. 11.

¹⁸ O. Neurath, 'Probleme der Kriegswirtschaftslehre', *Zeitschrift für die Gesamte Staatswissenschaft* LIX (1913), pp. 438–501.

tion of millions of men.¹⁹ Moreover, the latter would abolish peacetime unemployment, using idle labour in favour of national welfare.²⁰ Furthermore, war could also be seen as a necessary part of the capitalist economic system. This view was proposed not only by well-known socialist theorists such as Lenin²¹ but also by conservative economists. According to Werner Sombart, without war there would have been neither the creation of the nation-state (or the colonial system) nor the massive demand for goods (ships, clothing, food) contributing to economic growth and technological progress. In his opinion, these factors had been the main reason for economic advance since the sixteenth century. Thus, contrary to Angell's view, war itself, as a creator of ideas, could foster the development of the capitalist spirit of individual initiative and competition.²² Moreover, by victory in war, a country might be able to increase its national wealth by capturing the enemy's merchant fleet and by expanding its territory, raw material supply and arable lands. The takeover of the enemy's overseas trade and concessions, as well as the expropriation of private land, adding its former owners to the industrial labour force, could lead to an increase in production for the victor's economy.²³

Of course, there is one crucial military assumption in those theoretical effects of warfare: that the campaign should be victorious and relatively swift. Nevertheless, the basic possibility of gaining through booty and through annexation of territory could be an important factor when assessing the gains and losses from war in an environment of economic interdependence. In some sense, this view was confirmed by German occupation policy during the First and Second World Wars, even when taking into account the actual costs of control. On both occasions, German industry took massive advantage from the Belgian primary sector, especially from coalmining, and from the deportation of industrial workers. By 1918, about 5 per cent of the Belgian population was working directly for German enterprises.²⁴ Payments extracted more ruthlessly from France in 1943 have been estimated at 8–9 per cent of Germany's GNP, excluding benefits derived from French workers in Germany and confiscations.²⁵ This positive balance excludes, of course, the huge economic costs of continuing the war on other fronts. But those additional costs would have been only temporary if a German victory had consolidated the gains in territory and resources. From a victorious aggressor's point of view, war could there-

¹⁹ W. Sombart, 'Die Volkswirtschaftslehre und der Krieg', *Internationale Monatsschrift* IX (1915), pp. 243–58.

²⁰ Thomasson, 'War'.

²¹ V.I. Lenin, 'Der Imperialismus als höchstes Stadium des Kapitalismus', in *Ausgewählte Werke* (Moscow, 1987), pp. 164–257.

²² W. Sombart, *Studien zur Entwicklungsgeschichte des modernen Kapitalismus* II: Krieg und Kapitalismus (Munich, 1913)

²³ Neurath, 'Probleme'.

²⁴ Liberman, *Conquest*, pp. 74–9.

²⁵ J. Foreman-Peck, *A History of the World Economy* (Totowa, NJ, 1983), pp. 264–5.

fore pay well, since his success would enable him to extract resources from the vanquished according to his own needs. In this respect, at least one side has only limited influence on the balance of war, a point which liberal theory ignores for the most part, since it implicitly counts on action following legal rules. As Liberman puts it,

ruthless invaders can, in fact, successfully exploit industrial societies, at least for short periods of time. Control over industrial societies, moreover, can be maintained for longer periods at relatively low expense. Also, the available evidence does not show that foreign domination per se precludes economic growth, although multinational empires are unlikely to be as robust as comparably sized and developed nation-states. Conquest does not always pay; nationalism ensures that conquerors unwilling to engage in coercion and repression will face massive political and economic resistance. But determined conquerors can put a lid on nationalism, if not eradicate it, and cultivate or exploit their new domains on demand.²⁶

The actual problem may then be more military or strategic than fundamentally economic.

III. Ending the Costs of Interdependence

A second line of argument is the possibility that actual or potential economic costs resulting from a high degree of international interdependence can be overcome by war. It may well be that societies faced with the economic, political and social consequences of interdependence come to the conclusion that international trade and investment links, though profitable according to standard economic theory, impose too great a burden on them. Susan Strange has hinted at this fundamental fallacy of liberal interdependence theory:

The supposed coincidence of national and global welfare objectives . . . assumes the absence or unimportance of adjustment costs and risks. In theory, states can freely adapt either to the changing prices of factors of production or to the changing demands and conditions of the world market. In reality, the political as well as material costs of having to chop and change from one production sector to another are by no means inconsiderable, especially for poor countries or ones that do not share the high degree of conformism, respect for authority, and adaptability of, for instance, the Japanese society.²⁷

²⁶ Liberman, *Conquest*, p. 4.

²⁷ S. Strange, 'Protectionism and World Politics', *International Organization* XXXIX (1985), p. 238.

A major consequence is that protectionism can result in trade wars and, ultimately, in violent conflict in the world economy, because competition is seen as a zero-sum game among nations involved in an international struggle for economic supremacy. This perspective was perfectly summarized by Adams' account of international economic competition:

Sooner or later, the time is apt to arrive when distant termini become connected by rival routes, and then competing economic systems are generated, one or the other of which must be undersold. But to be undersold means to be ruined, and hence it has happened that, from an epoch inconceivably remote, hostile systems have fought with and crushed one another, and for this reason it may be laid down as an axiom that the final stage of economic competition is war.²⁸

Cunningham concluded that a certain degree of protectionism was positive for global economic development, since it eased the pain of socioeconomic transformation.²⁹

The very fact of economic internationalization might thus imply the possibility of international conflict. This is especially relevant if (asymmetric) economic interdependence is used as an instrument of foreign and power policy. It was exactly this kind of mechanism which was a propelling factor in the Anglo-German naval arms race before 1914. Here, the development of the global economic system since the end of the nineteenth century was proposed as a crucial argument for the massive buildup of the German navy. Insecurity due to growing international interdependence was perceived as a reason for the abolition of free trade, created by growing political pressure on governments to act against foreign competition. Apart from protectionism, economic security was sought by territorial expansion and by the creation of colonial empires abroad. This was generally considered as endangering Germany's own trade opportunities because the vast areas so acquired, together with new tariff barriers, were seen as self-sufficient economic spaces. In the case of Great Britain, however, German naval inferiority was also seen as a potential source of British blackmail, since the Royal Navy could threaten the vulnerable trade links of the German economy. This would not be as painful for the UK, with its alternatives in overseas trade, as for a blockaded Germany. For Germany, with her assumed dependence on overseas foreign trade, the existential alternative to economic and political decline was there-

²⁸ B. Adams, 'War and Economic Competition', *Scribner's Magazine* XXXI (1902), pp. 344–5.

²⁹ W. Cunningham, 'The Economic Basis of Universal Peace: Cosmopolitan or International', in *Report of the Eighty-second Meeting of the British Association for the Advancement of Science, Dundee, September 4–11, 1912* (London, 1913), pp. 545–6.

fore the creation of a navy to secure global communications.³⁰ Of course, this eventually included the risk of war with Great Britain.

IV. Economic Interdependence Now and Then

There may well, therefore, be some theoretical reasons for claiming that war does not always have to be a losing proposition economically. However, the unique conditions of the modern international economy today may have increased economic interdependence so that the costs of war must always outweigh any imaginable benefits. One reason why the 'liberal peace' arguments did not result in the preservation of peace in 1914 might thus be that the interdependence of contemporary European nations was too low compared to today.

Actual numbers, however, show that this was not the case (Table 1). Certainly, the sum of global imports and exports of goods and services has massively increased during the period since 1800. However, if we compare the importance of foreign trade (exports) relative to overall production (GNP), the numbers become far less impressive. Basically, world trade during the years before 1914 had already reached a level which was not attained again until after the two world wars, in the mid-1970s. Moreover, if we look at the rate of growth of international trade, both 15-year periods before 1914 and 1993 experienced a similar

Table 1 International trade: export–GNP ratios

	1870	1880	1890	1900	1910	1913	1980	1990
World	0.10	0.11	0.11	0.10	0.10	0.11	0.17	0.19
Europe	0.11	0.13	0.13	0.11	0.13	0.14	0.21	0.21
Germany	0.17	0.17	0.14	0.13	0.15	–	0.24	0.28
France	0.12	0.14	0.14	0.14	0.15	–	0.16	0.16
UK	0.18	0.16	0.16	0.14	0.18	–	0.17	0.16
Italy	0.09	0.12	0.08	0.11	0.11	–	0.12	0.14
Sweden	0.16	0.16	0.20	0.17	0.17	–	0.26	0.28

World data for 1840 to 1913 include only the USA and Europe (including Russia, but not Turkey). European data for 1980 to 1993 include only the EU-12 countries.

Sources: Paul Bairoch, *Commerce extérieur et développement économique* (Paris, 1976); International Monetary Fund, *World Economic Outlook* (Washington, DC, 1988, 1995); Institut der Deutschen Wirtschaft, *Zahlen zur wirtschaftlichen Entwicklung der Bundesrepublik Deutschland* (Cologne, 1995); Statistisches Bundesamt, *Statistisches Jahrbuch für das Ausland* (Stuttgart, 1989, 1995); J.E. Thomson and S.D. Krasner, 'Global Transactions and the Consolidation of Sovereignty', in E.O. Czempel and J. N. Rosenau, eds, *Global Changes and Theoretical Challenges: Approaches to World Politics for the 1990s* (Lexington, MA, 1989), pp. 195–219; own calculations.

³⁰ M. Sering, 'Die Handelspolitik der Großstaaten und die Kriegsflotte', in G. Schmoller, M. Sering and A. Wagner, eds, *Handels- und Machtpolitik. Reden und Aufsätze* (Stuttgart, 1900), pp. 1–44; P. Voigt, 'Deutschland und der Weltmarkt', in op. cit. 1 (Stuttgart, 1900), pp. 133–208.

increase in overall world trade (by about 75 per cent and 85 per cent, respectively) and, after huge increases in the two decades before, saw a successive decline in growth rates. Thus, neither the relative level of current world trade nor its dynamics really indicates a dramatic change in economic interdependence between the pre-1914 era and today. For Europe, pre-1914 export-GNP ratios are even closer to present-day values, although the data available for the current situation concentrates on the EU, which is reckoned as an extremely trade-intensive region in present world economics. For some European countries, like France, Italy and the UK, the present relative level of international trade is virtually the same as on the eve of the Great War, while Germany and Sweden follow the general, not too impressive upward trend.

A second element of international interdependence is international finance and investment. Here, the numbers are even more striking (Table 2). The present stock of western foreign assets relative to GNP amounts to just about half of the comparative pre-1914 totals. The current foreign investment of EU member-states, even in an environment of unrestricted capital flows and legal guarantees, is still a relatively less important economic factor than in the early twentieth century. In addition, there was already a very high level of formally regulated international cooperation in financial matters in the nineteenth century, with monetary unions among several groups of European states, of which the two most important were the Latin and the Scandinavian. Both lasted until the First World War and afterwards, fixing exchange rates and introducing common monetary units to be used in all member-countries as well as creating international clearing institutions.

Another primary element of financial cooperation was debt management, i.e. the international organization of debt repayment of minor European and African states. Introduced by the European great pow-

Table 2 International finance: gross stock of total foreign asset-GNP ratio

	1870	1900	1913	1929	1960	1985	1990	1993
Developed countries	0.57	1.02	1.08	0.24	0.12	0.47	0.52	0.51
EC/EU	—	—	—	—	—	0.88	0.76	0.80
G7	—	—	—	—	—	0.44	0.49	0.52

Data for 1840 to 1913 include only Belgium, France, Germany, the Netherlands, Sweden, Switzerland and the UK. Data for 1929 to 1970 include all western developed countries. Data for 1985 to 1993 include the EU-12 countries (except Ireland, Greece and Portugal for 1985 and 1990, and also the Netherlands, Belgium/Luxembourg and Spain for 1993), the USA, Canada and Japan. EC/EU and G7 numbers give the ratio if the non-European countries are excluded and for the major seven industrialized countries, respectively.

Sources: P. Bairoch, *Commerce extérieur et développement économique* (Paris, 1976); Institut der Deutschen Wirtschaft, *Zahlen zur wirtschaftlichen Entwicklung der Bundesrepublik Deutschland* (Cologne, 1986, 1991, 1994, 1995); OECD, *Economic Outlook 56* (Paris, OECD, 1994); own calculations.

ers who were also primary lenders, i.e. by Great Britain and France, and later also by Germany, Austria-Hungary and Italy, the International Financial Control Commission (IFCC) served as a guardian managing the public finances of a creditor unable to service or repay his liabilities. Debts were consolidated by reduction and by new long-term loans at low interest rates. Resistance by the debtor country was prevented by the threat of military force, and this also served to prevent the presumption of actual sovereignty by the IFCC. This mechanism, which was thus at least as thoroughgoing as any comparable current institutions like the IMF or the World Bank, was used in the cases of Tunisia, Egypt, Morocco, Greece, Bulgaria and Turkey.³¹

Finally, as far as transport and communications are concerned, the period of the second half of the nineteenth and beginning of the twentieth century showed a degree of technological innovation and dynamism which make it similar in several aspects to current technological development. Trade was fostered by the massive extension of infrastructure like railroad networks, resulting in a fall in railway freight costs of approximately 90 per cent between 1860 and 1913.³² In the same period the world's merchant fleet more than doubled, while overall freight rates halved. Furthermore, the acceleration of information and traffic resulting from the introduction of telegraph, telephone, aviation and motor vehicles was enormous.³³ It was even made responsible for speculative attacks on international financial markets.³⁴

V. Conclusion

The factors creating an economic environment in which war, according to liberal theory, would prove disastrous for every nation were well known to the public and to the relevant decisionmakers before the Great War, although governments often underestimated the probability of actual war. The works of Norman Angell were bestsellers in their time, being extensively reviewed by the press and discussed among scientists, politicians and the military all over Europe.³⁵ Moreover, the years before 1914 saw a great number of international peace congresses as well as increased research on the problems of war and peace, e.g. in the Carnegie Foundation.³⁶ Thus even extremists like the German general von Bernhardt³⁷ took account of the huge potential costs of a European war. Furthermore, the data and the literature

³¹ M. de Cecco, 'European Monetary and Financial Cooperation before the First World War', *Rivista di Storia Economica* IX (1992), pp. 55–76.

³² P. Bairoch, *Commerce extérieur et développement économique* (Paris, 1976), p. 35.

³³ Angell, *Great Illusion*; E. Hobsbawm, *The Age of Empire 1875–1914* (London, 1987).

³⁴ de Cecco, 'Cooperation'.

³⁵ W.L. Grane, *The Passing of War: A Study in Things That Make for Peace* (2nd edn, London, 1912).

³⁶ Mez, 'Abteilung'.

³⁷ F. von Bernhardt, 'Finanzielle und wirtschaftliche Kriegsvorsorge', *Der Greif* I (1913), pp. 117–26.

make clear that European interdependence in trade and finance were already extremely high before the First World War, and that this fact was well perceived.

In 1914, however, internationalized economic structures similar to those of today did not prevent the European powers from going to war. This shows that economic interdependence does not necessarily result in the prevention of war, since there are arguments which suggest the basic possibility of net benefits from war. The problem eventually is the military question of how to win a war fast, rather than the economic question of whether its costs are unbearable. Non-liberal economic theory and, in part, empirical evidence from the two world wars themselves reveal that, in fact, gains from war may still be possible in the modern world. Consequently, liberal mainstream economics in fact seems to overestimate the cost side of the balance sheet of war as such, and to underestimate its potential benefits. From a historical perspective, the 'liberal peace' may thus be more of a normative construct than the result of proper economic cost-benefit analysis.

As far as international peace is concerned, the decisive difference between European peace before 1914 and today seems to be not a higher level of economic interdependence but the human tragedy of two world wars and their consequences. It was the resolution never to fight each other again which preceded European economic integration in the 1950s, not vice versa. The example of pre-1914 Europe thus shows that economic interdependence can only contribute to securing peace if it develops in conditions where the mere thought of war as a political option has been overcome, i.e. when the countries involved wish to preserve peace anyway, whatever its economic balance. If this is not the case, interdependence, despite its economic benefits for all participants, can as well be perceived (or actually used) as a threat or a means of political or economic suppression. It may thus even foster international conflict. Immaterial prerequisites of peace have to precede the material ones if the latter are to work. More often than not, this is forgotten by liberal theory. In other words, economic interdependence can serve at best as a kind of backup to existing peace, but it is certainly not an instrument of its own for creating peace. If nations are prepared and willing to fight, they will fight despite economic costs. If they are not, however, peace will prevail, be there interdependence or not.

Basically, the role of economic interdependence for peace can therefore still be described in the words used by Grane in 1912:

The whole economic argument for the futility of War is in fact subject to grave limitations' . . . Moreover, though Peace, like Godliness, is no doubt 'profitable', yet, if either is sought on this account alone, it will certainly be forsaken should War or wickedness appear likely to pay better. The survival of War ultimately rests on Opinion.³⁸

³⁸ Grane, *Passing*, pp. xxxii–xxxiii.

Without a doubt, there is an economic case against war. But it is not as straightforward and ultimately convincing as liberal theory suggests.

Acknowledgements

I wish to thank Tim Guinnane, Tim Hatton, Hew Strachan, Peter Geil and one anonymous referee for very helpful comments on earlier drafts of this paper.

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